

Advanced Knowledge for Senior Marketers | July 2013

THE KNOWLEDGE

LOCKING CUSTOMERS INTO SERVICE RELATIONSHIPS

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SYNOPSIS

Do you know why your customers stay? Many service providers assume that the reasons are satisfaction and switching costs. While these are strong factors, our research shows that, in most service relationships, obligatory and personality factors also hold customers 'locked in' to the relationship.

DEFINITION

The term "locked-in" to a service relationship refers to a customer who feels bound to the relationship and feels that he or she is unable or unwilling to leave the service provider. The customer may feel locked in for either positive or negative reasons, and this lock-in may well be self-imposed rather than just contractual (Harrison, Beatty, Reynolds, and Noble 2012).

CURRENT THINKING

The reasons for switching service providers are usually associated with dissatisfaction with the service or competitor firms drawing the customer away. In contrast, the reasons for staying in a service relationship are usually assumed to be limited to satisfaction with the core service or switching costs. Our research challenges that assumption.

We conducted qualitative interviews with customers who felt locked into both positive and negative relationships. We uncovered four broad categories of lock-in factors: relational benefits/satisfaction, switching costs, obligatory factors, and personality factors. In the majority of these "locked-in" relationships, the participants mentioned multiple factors that they felt locked them in, rather than one factor or category.

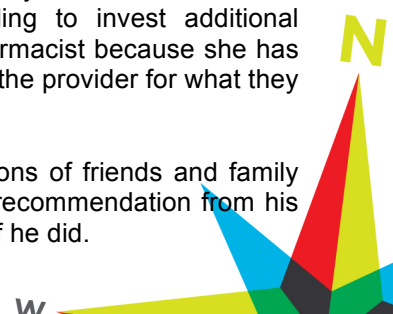
Participants talked about service relationships where they felt they "could not easily leave or break up with" the provider. Each participant talked about one positive and one negative relationship. Over 20 different service provider types, from small local businesses to large corporations were discussed. The majority of the relationships were personal relationships, in which the provider and customer know each other and have a history of shared interaction (as opposed to interacting with the company, but not knowing anyone in particular).

Relational benefits/satisfaction were mentioned in 93% of the relationships, switching costs in 82% of the relationships, obligatory factors in 82%, and personality factors in 68%. These numbers vary little between positive and negative relationships, and provide an indication of the importance of each category in service relationships. Here, we discuss those that marketers rarely hear about: obligatory and personality factors.

Obligatory factors are the reasons for staying that involve a sense of duty or responsibility to continue to do business with the service provider. The participants discussed a sense of obligation to the service provider that we divided into four subcategories: (1) long history with the service provider or a sense of owing the provider, (2) the expectations of friends or family members, (3) a family member or friend provides the service, and (4) the need to help the service provider stay in business.

The strongest obligatory factor for both positive and negative relationships was having a long history with the provider or a sense of owing the provider. The idea of staying because of a long history is similar to the sunk-cost effect (responding to previous investments by becoming increasingly willing to invest additional resources). One woman said that she believes she should stay with her current pharmacist because she has already been with him for so long. Other respondents talked about the need to repay the provider for what they had done for them in the past, similar to the norm of reciprocity.

The second most prevalent obligatory factor was staying because of the expectations of friends and family members. One man said that he remained with his mortgage lender because of a recommendation from his aunt. He wanted to leave, but felt his aunt might have negative feelings towards him if he did.



The third subcategory under obligatory factors is that a friend or family member provides the service. A person's relationship with their friends and family involves a deep sense of obligation and loyalty. This fits with Hamilton's rule, which says that people prefer family when all other things are equal. One woman said that her uncle owns an alarm company, and so she stays with the company because she truly feels that her uncle would be upset if she left.

The final obligatory subcategory is the need to help the service provider stay in business. Supporting the business or helping the provider stay in business speaks to the duty or sense of responsibility that some customers feel. This idea showed up primarily in positive relationships. One individual said that she stays with her dentist because she feels a sense of loyalty to the professionals who do not leave her neighbourhood.

While most of these subcategories emerged from personal relationships, we believe these can apply to larger organisations as well, but in different ways. For example, an individual may feel compelled to stay with a provider (an individual provider or a large organisation) because of a recommendation from a friend or family member. Alternatively, a friend or family member may not directly provide the service, but may work for the organisation. Leaving the provider may feel like indirectly harming that important person. Finally, many large companies attempt to build relationships with individual customers or engage customers in some way. As customers get to know employees of the organisation, these obligatory factors may become more prevalent reasons for staying.

The personality factors found in this study represent stable traits of an individual that cause them to stay with the service provider. Two subcategories emerged from this factor: (1) the desire to avoid confronting others or hurting other people's feelings and (2) resistance to change. Individuals who avoid confrontation try to preserve the rapport that they have with others. This factor showed up more in negative relationships than in positive relationships. These individuals talked about how much easier it is to stay in the service relationship rather than confront the issue or problem or hurt the service provider's feelings. One participant said that she would put up with anything until it gets out of hand because she is a very non-confrontational person (talking about her bank). One participant said that it would make her feel mean or uncaring if she left.

Individuals who are resistant to change prefer what is familiar to them and do not change their minds effortlessly. This personality characteristic showed up in both positive and negative relationships, but came up twice as often in positive relationships than negative relationships. Change is painful for people who are resistant to change, and these individuals want to keep their routine and stick to the status quo. One man said that he endures things that he finds unpleasant with his landlord so that he can maintain consistency. Another man stated that he does not like change very much, and once he gets used to a certain provider, then he is going to continue going there (discussing his dentist).

The findings from our research indicate that obligatory and personality factors play a substantial role in customer lock-in and that marketers need to consider both the positive and negatives aspects of these factors alongside more established factors such as relational benefits/satisfaction and switching costs.

IMPLICATION FOR MANAGERS

Understanding more fully why customers stay in service relationships helps service providers make better decisions both in retention and acquisition.

At a simple level, a service provider may wish to draw a customer's attention to the length of time that he or she has been in the relationship, or thank customers for their long-time commitment to the provider. At a more sophisticated level, a provider that understands its customers' personalities can incorporate this insight into segmentation activities, and take steps to encourage those customers to stay.

For segments resistant to change, a provider could avoid introducing new technologies or offer support to make the change easier. An anonymous feedback system would allow less confrontational communication of problems or issues. Understanding personality characteristics also allows providers to reach out to customers of competitors who may be resistant to change or avoid confrontation, for example by offering to contact the current provider and manage the changeover on their behalf.

However managers must understand the downside of "locked-in" relationships. For example, if a service provider must reduce staff or staff hours, it is important for managers to consider that employees may have

customer bases made up of friends, family members, long-time customers of the employee, or individuals who were referred to the employee by someone that they care about. Removing the employee could also mean the loss of profitable customers.

Managers should also consider that customer needs change over time. If a customer is dissatisfied but feels that there are high switching costs or has obligatory or personal reasons why they remain, this can lead to both negative emotions and negative word of mouth. Customers may feel like hostages and advise others to go elsewhere.

It has long been known that companies who understand their customers' needs have a better chance of creating sustained competitive advantage. This research suggests that a marketer's understanding should extend beyond product or service needs and into the relationship itself. Understanding why customers remain locked in with a service provider, whether for positive or negative reasons, can help improve the service provision for those customers and may suggest ways to harvest new customers from competitors.

FURTHER READING

Harrison, Mary, Sharon Beatty, Kristy Reynolds, and Stephanie Noble (2012) "Why Customers Feel Locked Into Relationships: Using Qualitative Research to Uncover The Lock-in Factors," *Journal of Marketing Theory and Practice*, 20 (4), 391-406.

Price, Linda, and Eric Arnould (1999), "Commercial Friendships: Service Provider–Client Relationships in Context," *Journal of Marketing*, 63 (4), 38–56.

ABOUT THE AUTHORS



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